



# Redevelopment. Building Better Communities.

## A Primer for Citizens and Public Officials

*“Redevelopment is a locally-driven activity that assists local governments in revitalizing their communities. Redevelopment encourages new development, creates jobs, increases housing stock, provides infrastructure, and generates tax revenues in declining urbanized areas by developing partnerships between local governments and private entities. Over 380 California cities and counties have adopted local redevelopment plans.” - California Redevelopment Association*

With 80% of all cities and 46% of all counties in California having redevelopment agencies, redevelopment has been the most successful and effective tool used by local governments to reverse deterioration, build partnerships with local businesses and the community, strengthen neighborhoods, and effectively implement a community’s vision. In addition, redevelopment agencies are the largest source of funding for affordable housing in California, next to the federal government.

Redevelopment was created by state law to assist cities and counties in eliminating blight from a designated area, as well as to achieve the goals of development, reconstruction and rehabilitation of residential, commercial, industrial and retail areas. Redevelopment breathes new life into deteriorated areas plagued by social, physical, environmental, or economic conditions which act as barriers to new investment by private enterprise.

The California Community Redevelopment Act was enacted in 1945 to address problems such as urban blight, degrading buildings, and a lack of affordable housing. This Act gave cities and counties the authority to establish redevelopment agencies, and the authority and tools to attack urban decay. In 1951, the Act was renamed the Community Redevelopment Law, as it is known today, and it was codified in the California Health and Safety Code beginning at Section 33000. More importantly, the authority for tax increment financing was added and approved by the voters of California.

In 1976, the State Legislature imposed a requirement that 20% of the tax increment generated from project areas must be used to improve the community’s supply of affordable housing. The State Legislature enacted AB 1290 in 1993, known as the “Community Redevelopment Law Reform Act of 1993,” which significantly revised California redevelopment law by addressing alleged abuses and adding restrictions on redevelopment. The Act also restricts redevelopment activities to predominately urbanized areas.

Redevelopment is primarily financed with tax increment revenue. Typically, redevelopment agencies use tax increment funds to leverage financial assistance from private sources and from various agencies of the state and federal governments. Other revenue sources include loans, grants and tax allocation bonds.

Since 1992, the State Legislature has used funds from local governmental entities, including redevelopment agencies, to help balance the state budget. To do this, the Legislature established Education Revenue Augmentation Funds (ERAF) in every county and required a portion of property tax revenue to be reallocated to schools through this device. (An ERAF “shift” reduces dollar-for-dollar the amount of State aid to schools.) Since 1992, the State has taken away funds from redevelopment agencies on five occasions – totaling \$545 million. In addition, for fiscal years 2004-05 and 2005-06, an additional \$250 million ERAF transfer will be made each year producing an ERAF shift total of \$1.045 billion over a thirteen-year period. As a result of these take-aways, redevelopment activities and programs have been reduced, delayed, and/or eliminated.

## Redevelopment Agencies

A redevelopment agency is a separate legal entity that exercises governmental functions and has the powers enumerated in the Community Redevelopment Law. An agency must account locally and to the State for its activities. It must prepare an annual financial report, present it to the legislative body (the city council or board of supervisors), and file it with the State Controller. The report describes the agency's financial condition and a summary of its activities during the prior year.

To establish an agency, the legislative body of the relevant local government must adopt an ordinance declaring the need for a redevelopment agency in that jurisdiction. The legislative body must choose one of three organizational options: establish itself as the governing body of the redevelopment agency; appoint a separate governing body for the redevelopment agency; or, establish a community development commission, which allows the legislative body or a separate appointed body to function jointly as a redevelopment agency and a housing authority.

In most cities and counties, the legislative body is also the governing board of the redevelopment agency. Five cities – Bakersfield, Los Angeles, Long Beach, San Francisco, and Santa Rosa – have separate boards appointed by the city council to oversee the activities of the agency.

The fundamental functions of a governing board of a redevelopment agency are to establish redevelopment project areas and to adopt and implement redevelopment plans for the improvement, rehabilitation, and redevelopment of blighted areas. The redevelopment plan acts as the agency's charter by establishing long-term planning goals, implementation policies and procedures, and financing plans.

Redevelopment agencies undertake a wide variety of projects and activities designed to improve a project area and eliminate blight. The agency determines the type of projects based upon the character of the neighborhood or the needs and desires of the property owners, businesses, and tenants in the area. The following are examples of the types of projects that agencies have undertaken:

- Downtown Revitalization
- Retail Development
- Commercial Development
- Industrial
- Residential
- Mixed-Use
- Public Facilities
- Infrastructure

Redevelopment agencies cannot pay for normal maintenance or operations of publicly-owned facilities or pay to construct, reconstruct, rehabilitate, or replace a city

hall or county administration building. In addition, an agency cannot provide direct assistance to auto dealers on non-urbanized land, to retail projects on non-urbanized parcels over five acres in size (e.g. big box retailers), to gambling or gaming facilities, or to relocate big-box retailers and auto dealers within the same market area.

*Redevelopment agencies are subject to the same governance requirements as cities and counties, as well as additional stipulations that are specific to redevelopment.*

When adopting a redevelopment plan, the agency board must form a project area committee (PAC) if the plan authorizes the use of eminent domain over private property that provides residence to a substantial number of low- and moderate-income persons. In this case, the agency must receive advice from the PAC – which consists of residents, property owners, business owners, and/or community organizations in the project area – on matters dealing with the displacement of the affected residents in the project area.

Property contaminated by hazardous substances is common in urban areas in California and often is a major



Before

Now



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impediment to redevelopment. To provide redevelopment agencies a means to address contaminated property, the State Legislature enacted the Polanco Redevelopment Act in 1990. The Act gives redevelopment agencies the tools to identify, investigate, remediate, and acquire contaminated properties, commonly referred to as brownfields, without incurring the environmental liability under state and local laws that might accompany such actions. It allows redevelopment agencies, subject to certain restrictions, to take actions that the agency determines are necessary to address hazardous substances on, under, or from property within its project area. In return, the agency, the developer of the property, and subsequent owners receive limited immunity from further cleanup liability.

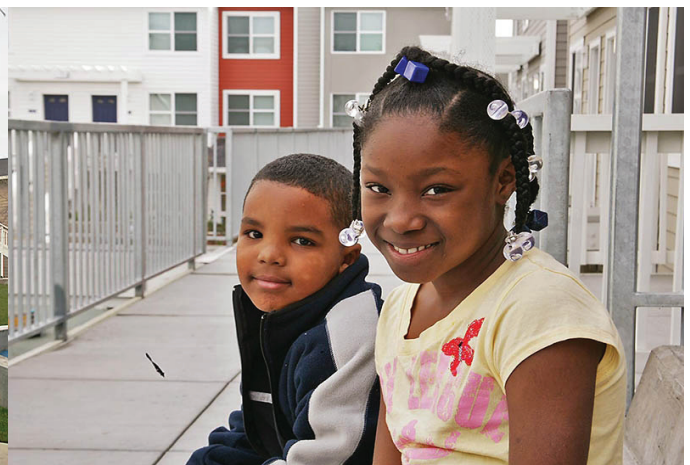
The administration of the redevelopment agency is carried out by the staff of the agency. The size of the staff and scope of programs in redevelopment agencies vary widely. In large redevelopment agencies, the staff may be separate from the city or county. In mid-size and smaller agencies, the administration is typically handled by existing city or county staff in addition to their other responsibilities. Furthermore, the city manager, county administrator, or a department head typically serves as the executive director of the agency. The community development, planning, public works, and finance departments are frequently involved in developing and administering agency programs.

Redevelopment agencies are subject to the same governance requirements as cities and counties, as well as additional stipulations that are specific to redevelopment. City council members and county supervisors need to understand their role in the agency and how that position is governed by the various ethics laws and requirements. Agencies are subject to the open meeting requirements of the Brown Act, they must adhere to the Public Records Act, and they are subject to the “conflict of interest” provisions of the Political Reform Act of 1974.

## Powers of Redevelopment Agencies

California Community Redevelopment Law prescribes the powers of a redevelopment agency. An agency has powers that are typical for a local governmental agency as well as unique powers that are exercised only by redevelopment agencies. Those unique powers include:

- The ability to buy private property for resale to another private person or organization. The acquisition and disposition of property are central activities of redevelopment agencies. The power of redevelopment agencies to acquire property is broad, authorizing agencies to purchase, lease, obtain an option on, acquire by gift, grant, bequest, devise or otherwise, any real or personal property, and any interest in or improvements on property. Likewise, agencies may dispose of real or personal property, or any interest therein, within the project area or for redevelopment purposes.
- The ability to use the power of eminent domain to acquire private property. Eminent domain, or condemnation, refers to the right of a government to take private property for public use in exchange for just compensation. Redevelopment agencies may exercise condemnation authority to acquire real property in the project area to eliminate blight and assist the goals of the redevelopment plan. Agencies may use this tool to assemble parcels of land which are then sold or leased to property owners or developers for redevelopment. Agencies are also responsible for relocation of existing residents or businesses.
- The power to collect property tax “increment” in order to finance the redevelopment program of the community. Tax increment financing is unique to redevelopment agencies and is the primary tool for financing the public costs of redevelopment activities in California. It is based on the assumption that a revitalized project area



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will generate more property taxes than before redevelopment and that those increased property taxes, or “increment,” should be devoted to paying the public costs of redevelopment. This tax increment revenue must be used by the agency to repay indebtedness incurred to carry out the redevelopment project.

- The ability to issue tax increment bonds. Tax increment may be pledged to repay bonds issued by the agency to finance the costs of redevelopment (“Tax Increment” or “Tax Allocation” Bonds). These bonds are secured solely by the pledge of tax increments generated by the growth in assessed value from within the project area and are not a debt or obligation of the city or county government or the general taxpayer.

## Housing Set-Aside (“Low-Mod Funds”) and Production Requirements

California Community Redevelopment Law requires that not less than 20% of tax increment revenue derived from a redevelopment project area be used to increase, improve, and preserve the supply of housing for very low-, low-, and moderate-income households. These funds comprise the largest single source of money available for the development of affordable housing in California. The following uses are authorized housing set-aside expenditures:

- Acquisition of real property or building sites
- Onsite or offsite improvements
- Donation of real property to private or public persons or entities
- Financing insurance premiums
- New construction or rehabilitation of buildings or structures
- Acquisition of buildings or structures



**Before**

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**Now**

- Provision of subsidies to lower income households
- Development of plans, payment of principal, interest, financing or carrying costs on bonds, loans, advances or other indebtedness
- Preservation of the affordability of low- and moderate-income housing units
- Satisfaction of replacement housing requirements
- Reasonable administrative expenses

A redevelopment agency must relocate or provide housing for project area residents displaced by the agency’s activities. An agency is also obligated to replace within four years each low- and moderate-income housing unit destroyed or removed from its project area.

In addition to the 20% requirement, the California Community Redevelopment Law contains inclusionary housing requirements. For new or rehabilitated dwelling units developed by an agency in a project area, at least 30% of all units must be available to low- and moderate-income households, with not less than 50% of those units available to very low-income households. For new or rehabilitated dwelling units developed by private or non-profit entities in a project area, at least 15% of all units must be available to low- or moderate-income households, with not less than 40% of those units available to very low-income households.

In addition to the new construction and rehabilitation of dwelling units, an agency may satisfy its inclusionary housing obligations by constructing housing units outside a project area on a two-for-one basis, by aggregating the units between redevelopment project areas, or by purchasing long-term affordability covenants.

## Additional Redevelopment Resources

The California Redevelopment Association (CRA) is a nonprofit organization representing redevelopment agencies and affiliated private organizations involved in redevelopment activity. CRA’s mission includes legislative advocacy, professional education, and dissemination of information regarding redevelopment law and activities. CRA members include approximately

345 redevelopment agencies and 290 private sector companies and nonprofit organizations. CRA sponsors numerous educational conferences and publications related to redevelopment in California. For more information, go to CRA’s website at [www.calredevelop.org](http://www.calredevelop.org) or call 916-448-8760.

